S. H. KRESS & COMPANY

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Kress Store
Memphis, Tenn.

Annual Report - 1946

MEMPHIS, TENN., 1896

April 18, 1946, marked the completion of fifty years of Kress service to the public.

On April 18, 1896, Mr. S. H. Kress opened the first store of the Kress chain in Memphis, Tenn. Since that time the Company has maintained one or more stores in various locations in Memphis. Today the Kress store in Memphis (shown on front cover) is a large, modern retailing establishment with a background of fifty years of service to the public.

S. H. KRESS & COMPANY

Buying-Executive Offices
114 Fifth Avenue, New York 11, N. Y.

OFFICERS

S. H. Kress	*Chairman of the Board*
R. H. Kress	*Vice-Chairman of the Board*
W. L. Baker	*President*
O. N. Birkland	*Vice-President*
H. S. Davis	*Vice-President*
A. G. Eastman	*Vice-President*
W. H. Lollar	*Vice-President*
E. F. Sibbert	*Vice-President*
O. A. Taylor	*Vice-President*
C. H. Owen	*Secretary and General Counsel*
C. M. Funk	*Treasurer*
A. J. Oehler	*Controller*
W. M. Weaver	*Assistant Treasurer*
W. F. Dempsey	*Assistant Secretary*
J. S. Smith	*Assistant Secretary*

DIRECTORS

S. H. Kress	W. L. Baker	O. N. Birkland
R. H. Kress	O. A. Taylor	H. S. Davis
H. S. Bowers	J. M. Hancock	W. H. Lollar

Transfer Agent: Lawyers Trust Company, New York, N. Y.
Registrar: Chemical Bank & Trust Company, New York, N. Y.

S. H. KRESS & COMPANY

January 31, 1947

To the Stockholders of S. H. Kress & Company:

There are submitted herewith financial statements of our Company for the year ending December 31, 1946, certified by Messrs. Price, Waterhouse & Co., independent public accountants.

On April 18, 1946, our Company observed its fiftieth anniversary. It is gratifying to note that this anniversary occurred in a year in which the sales volume reached an all-time peak of $150,926,508, or 19.7% greater than in the preceding year. We appreciate the support of our customers, stockholders and employes who contributed to this result. It has been the policy of our Company since its inception in 1896 to provide outstanding merchandise values and service to the public, and the results for the year 1946 fully demonstrate the wisdom of this policy.

Profit for the year 1946, before providing for Federal taxes on income, amounted to $20,785,531 as compared with $16,687,280 in 1945. After providing for Federal taxes on income, the profit for the year 1946 was $12,785,531 or $5.44 per share of common stock as compared with $5,012,280 or $2.13 per share in 1945.

Salaries and wages paid to officers and employes during the year 1946 amounted to $24,656,546 as compared with $19,833,708 in 1945, an increase of 24.3%. The increase in salaries and wages paid was occasioned by the increase in the number of store employes, including men returning from military service, and by increases in the base wage rates of store and office employes. Salaries paid to officers and directors for the year were $640,058, equivalent to four-tenths of one cent per dollar of sales.

Special payments made during the year to employes other than managers and executives amounted to $786,034 as compared with $385,330 in 1945 and consisted of the customary Christmas bonus, length of service and special merit payments, and a special bonus to commemorate the Company's fiftieth anniversary. In addition thereto, the employes' retirement pension and group life insurance plans required an outlay of $413,330. This does not include our Company's

share of unemployment insurance and Federal old age benefit taxes which amounted to $588,252.

In each of the first and second quarters of the year, dividends of 40¢ per share of common stock were paid; in the third and fourth quarters, dividends of 50¢ per share were paid, making a total of $1.80 per share for the year as compared with $1.60 in 1945. In addition to the quarterly dividends, special dividends of $2.40 per share were paid in 1946.

At the end of the year the ownership of our Company was in the hands of 7,800 shareholders as compared to 7,300 at the end of 1945. It is gratifying to note that 1,047 shareholders are employes of our Company.

While the elimination of Federal excess profits taxes in 1946 reduced the aggregate amount, taxes continued to be one of the major costs of operation. In 1946, Federal, state and municipal taxes amounted to $10,736,538, which is equivalent to 7.1¢ of every dollar of sales. Our Company also collected excise and sales taxes amounting to $4,288,793 for Federal, state and municipal taxing authorities.

At the end of the year we operated 242 stores in twenty-nine states and in the Territory of Hawaii. The store at Beaumont, Texas, which was closed by fire in 1944, was reopened in March, 1946. Three stores, Columbia, Mo., Fort Myers, Fla., and 125th St., New York, N. Y., were closed during the year due to expiration of leases or sale of property.

Because of government restrictions on building operations which were in effect during the war, our Company has been unable to undertake any major construction or rehabilitation work since 1941. There is a substantial accumulation of urgently needed work which must be undertaken as soon as present building restrictions are removed and building costs become more stable. Our program includes the opening of 18 new stores at locations acquired by lease or purchase, the enlargement of 21 stores and extensive modernization of many existing stores. Negotiations for additional locations are in progress. This contemplated program for the construction of new stores and rehabilitation of existing stores will entail substantial capital expenditures during the coming years.

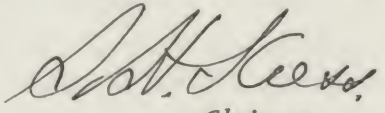
Inventories of merchandise at December 31, 1946, amounted to $24,294,803 as compared with $15,400,615 at the end of 1945. The investment in merchandise at the end of 1946 bears a more normal relationship to sales volume than the inventories in recent years. Costs of merchandise are somewhat higher but current price trends are being

followed closely by the management and every precaution is being taken to maintain a normal relationship between inventories (including commitments for future deliveries) and sales.

Personnel problems have been eased somewhat since the end of the war, up to which time 1,646 of our employes had entered military service. Of the 149 managers and assistant managers who enlisted or were called into the service, 119 or 80% have returned to work with us; having so many experienced key men back at work has been of great help in strengthening our store organization which was badly handicapped during the latter years of the war because of the lack of experienced and well-trained managerial and supervisory personnel.

While present indications are that operating expenses will be higher, competition keener and profits lower, we look forward to the future with the assurance that we have much to offer to the public as the result of fifty years of successful operation. We assure our employes and stockholders that the sound principles on which the success of our Company has been built will be continued in the future.

By order of the Board of Directors,



Chairman

S. H. KRESS & COMPANY

Statement of Profit and Loss and Surplus

	Year ending December 31, 1946	1945
GROSS SALES	$150,926,508	$126,038,945
Deduct:		
Cost of merchandise sold and operating expenses (including amounts charged as rental of owned properties and leasehold improvements)	$129,917,949	$108,692,781
Provision for depreciation and amortization	1,969,745	2,011,208
Provision for employes' retirement pension plan	330,788	311,967
Provision for past service benefits under supplemental pension plan	34,552	432,103
	$132,253,034	$111,448,059
	$ 18,673,474	$ 14,590,886
Add:		
Amounts charged as rental of owned properties and leasehold improvements (included in expenses above)	$ 1,484,969	$ 1,487,173
Rentals received from other tenants	369,338	331,036
Restoration of reserve for post-war adjustments	—	250,000
Gain on sales of U. S. Government securities and other assets	100,877	5,572
Interest received (net)	156,873	22,613
	$ 2,112,057	$ 2,096,394
	$ 20,785,531	$ 16,687,280
Deduct:		
Provision for Federal income taxes	$ 8,000,000	$ 2,475,000
Provision for Federal excess profits taxes (net)	—	9,200,000
Total Federal taxes based on income	$ 8,000,000	$ 11,675,000
NET PROFIT FOR THE YEAR	$ 12,785,531	$ 5,012,280
EARNED SURPLUS AT BEGINNING OF YEAR	21,565,958	20,316,356
	$ 34,351,489	$ 25,328,636
Deduct:		
Dividends paid on common stock	$ 9,877,031	$ 3,762,678
EARNED SURPLUS AT END OF YEAR	$ 24,474,458	$ 21,565,958

S. H. KRESS & COMPANY

ASSETS

	December 31, 1946	December 31, 1945
CURRENT ASSETS:		
Cash	$ 9,121,003	$ 16,367,994
U. S. Government securities, at amortized cost (market value at Dec. 31, 1946—$5,400,000)	5,361,806	10,942,608
Sundry debtors	50,370	42,400
Inventories of merchandise, including merchandise in transit, at cost or market, whichever is lower	24,294,803	15,400,615
Total current assets	$ 38,827,982	$ 42,753,617
OTHER ASSETS:		
Loans and advances to landlords and miscellaneous notes receivable	$ 537,440	$ 443,537
Prepaid insurance premiums, rents, etc.	1,170,168	640,465
Total other assets	$ 1,707,608	$ 1,084,002
CAPITAL ASSETS:		
Fixtures and equipment, at cost	$ 15,313,317	$ 15,184,150
Less—Reserve for depreciation	11,866,410	11,468,017
	$ 3,446,907	$ 3,716,133
Leasehold improvements, at cost	$ 16,379,140	$ 16,480,943
Less—Reserve for amortization	8,610,941	8,322,442
	$ 7,768,199	$ 8,158,501
Land and buildings owned in fee, at cost in cash and capital stock	$ 39,596,767	$ 39,170,652
Less—Reserve for depreciation	9,899,412	9,161,272
	$ 29,697,355	$ 30,009,380
Goodwill, leaseholds, etc.	$ 1	$ 1
Total capital assets	$ 40,912,462	$ 41,884,015
	$ 81,448,052	$ 85,721,634

Balance Sheet

LIABILITIES

	December 31, 1946	December 31, 1945
CURRENT LIABILITIES:		
Accounts payable—trade creditors	$ 1,028,143	$ 1,831,175
Accounts payable—merchandise in transit	1,280,141	1,023,767
Accrued salaries, expenses, taxes, etc., including taxes withheld	5,199,373	3,986,845
Provision for Federal taxes on income (*less* U. S. Treasury tax notes; 1946, $7,872,000; 1945, $3,372,000)	1,073,201	8,921,153
Total current liabilities	$ 8,580,858	$ 15,762,940
CAPITAL STOCK AND EARNED SURPLUS:		
Capital stock:		
Special preferred stock—6% cumulative— Authorized—1,000,000 shares of $10 each Outstanding—None	—	—
Common stock without par value— Authorized—2,678,787 shares Issued—2,357,574 shares	$ 48,511,253	$ 48,511,253
(Common stock reserved for sale to employes—68,434 shares)		
Earned surplus	$ 24,474,458	$ 21,565,958
Less—Cost of 5,900 shares of common stock reacquired	118,517	118,517
	$ 24,355,941	$ 21,447,441
Total capital stock and earned surplus	$ 72,867,194	$ 69,958,694
	$ 81,448,052	$ 85,721,634

AUDITORS' REPORT

PRICE, WATERHOUSE & CO.

56 PINE STREET
NEW YORK 5

January 31, 1947.

To the Stockholders of S. H. Kress & Company:

We have made an examination of the balance sheet of S. H. Kress & Company as of December 31, 1946 and of the related statement of profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

In our opinion, the accompanying balance sheet and related statement of profit and loss and surplus present fairly the position of S. H. Kress & Company at December 31, 1946 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.

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